
**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
BOARD OF ADMINISTRATION
POLICY SUBCOMMITTEE
OF THE
INVESTMENT COMMITTEE**

MINUTES OF MEETING

October 12, 2007

A meeting of the Policy Subcommittee was held on Friday, October 12, 2007 in the Lincoln Plaza North Building, Auditorium, 400 Q Street, Sacramento, California.

The meeting was called to order at approximately 9:45 a.m. and the following members were present:

Priya Mathur, Chair
Marjorie Berte, Vice Chair
Robert Carlson
Tony Oliveira
Charles Valdes

AGENDA ITEM 2 – APPROVAL OF THE AUGUST 2007 MEETING MINUTES

On **MOTION** by Mr. Carlson, **SECONDED** and **CARRIED** to approve the August 10, 2007 meeting minutes as presented.

Mr. Oliveira abstained.

AGENDA ITEM 3a – TOTAL FUND, Glossary of Terms – Definition of Emerging Markets and Related Terms

Anne Stausboll, Chief Operating Investment Officer, Mary Cottrill, Senior Portfolio Manager, and Danielle Wallace, Staff Services Analyst, presented the item. Andrew Junkin, Wilshire Associates, was available to respond to questions from the Subcommittee.

Per Subcommittee direction at the April 13, 2007 meeting, staff reviewed the current definitions for Emerging Markets. Staff recommended to the Subcommittee a revised definition for Global Equity Emerging Markets.

In addition, the Subcommittee discussed the need for definitions of the term “emerging markets” as used in other asset classes. Staff will report on this at a future date and will also provide a comparison (or matrix) of the definitions and policies across asset classes.

On **MOTION** by Ms. Berte, **SECONDED** and **CARRIED** to recommend to the Investment Committee approval of the Global Equity Emerging Markets definition as presented.

AGENDA ITEM 4a – GLOBAL EQUITY, Revision of Manager Development Program I and II (MDP) Manager Transition Policy

Mary Cottrill, Senior Portfolio Manager, presented the item. Andrew Junkin, Wilshire Associates, was available to respond to questions from the Subcommittee.

In May 2007, the Investment Committee approved a revision to the MDP II partners' investment charters to expand the permitted investments to include those investment strategies that are externally managed in CalPERS' public markets programs, excluding hedge funds and funds of emerging hedge funds. Staff presented a revised policy which reflects the approved revision.

In addition, the policy was expanded to cover the MDP Program, as well as manager transitions. The policy name was revised to reflect the addition.

On **MOTION** by Mr. Valdes, **SECONDED** and **CARRIED** to recommend to the Investment Committee approval of the revised Statement of Investment Policy for Manager Development Program I and II (MDP) and Manager Transition.

AGENDA ITEM 4b – GLOBAL EQUITY, Adoption of Emerging Equity Markets Principles and Repeal of Permissible Equity for Emerging Equity Markets

Mary Cottrill, Senior Portfolio Manager, presented the item. Andrew Junkin and Michael Schlachter, Wilshire Associates, were available to respond to questions from the Subcommittee.

In August 2007, the Investment Committee approved a principles-based approach to investing in emerging markets in lieu of the existing country list and permissible equity markets analysis. To implement this decision, staff recommended adoption of the Statement of Investment Policy for Emerging Equity Markets Principles, and the repeal of the Statement of Investment Policy for Permissible Equity for Emerging Equity Markets.

This new principles-based approach continues CalPERS' policy of being a positive influence for improved practices in emerging markets, while increasing the opportunity set for CalPERS' managers and providing a potential reduction in the volatility of CalPERS' emerging markets returns. In addition, adopting the principles-based approach in lieu of a country list results in cost savings of approximately \$1 million per year.

There was discussion regarding clarification of the intent of the principles-based approach.

On **MOTION** by Mr. Valdes, **SECONDED** and **CARRIED** to recommend to the Investment Committee the repeal of the Statement of Investment Policy for Permissible Equity for Emerging Equity Markets, and adoption of the Statement of Investment Policy for Emerging Equity Markets Principles, with the understanding that modifications will be made to clarify the intent of the principles.

AGENDA ITEM 5a – SUPPLEMENTAL INCOME PLANS, Adoption of Policy on Supplemental Income Plans

Geraldine Jimenez, Division Chief, presented the item. Andrew Junkin, Wilshire Associates, was available to respond to questions from the Subcommittee.

Staff presented a proposed policy that defines roles and responsibilities, and provides guidance, direction, and a foundation for the development of investment strategies for the Supplemental Income Plans. The Legal Office and the Enterprise Office of Compliance were consulted during the development of this policy.

The Chair directed (1) that the term "participant," as used in this policy, be defined and added to the policy glossary; and (2) that the term entities be substituted for participants where appropriate.

On **MOTION** by Ms. Berte, **SECONDED** and **CARRIED** to recommend to the Investment Committee adoption the Statement of Investment Policy for Supplemental Income Plans, as revised.

POLICY REVIEW AND CONSOLIDATION PROJECT

Anne Stausboll, Chief Operating Investment Officer, reviewed the history of the Policy Review and Consolidation Project and outlined the project objectives to:

- Organize and streamline Investment Policy to improve access, clarity and transparency
- Provide a consistent Investment Policy framework
- Ensure that the policies facilitate the ongoing CalPERS compliance program

Agenda Items 6 and 7 (below) reflect the results of the review of policies within the Investment and Risk Management and Operations categories of the Policy Manual. A phased review of all policies is ongoing and will be completed in 2008.

AGENDA ITEM 6 – Revision of Investment and Risk Management Policies

Staff presented the Investment and Risk Management policies and cited recommended changes. Most of these policies were previously located within the asset class sections of the Policy Manual and have been moved to the newly formed Investment and Risk Management category.

The review was a joint effort and includes input from the General Pension Consultant, the private equity and real estate consultants, the CalPERS Legal Office, and the Enterprise Office of Compliance.

Andrew Junkin, Wilshire Associates, was available to respond to questions from the Subcommittee.

On **MOTION** by Mr. Carlson, **SECONDED** and **CARRIED** to recommend to the Investment Committee approval of the revised Statements of Investment Policy for:

- a. Development of Derivatives Strategies
- b. Derivatives – External Money Managers
- c. Developmental Investment Fund
- d. Risk Management
- e. Securities Lending
- f. Credit Enhancement Program

AGENDA ITEM 7 – Revision of Operations Policies

Matt Flynn, Division Chief, presented the Custody Management and Directed Brokerage Arrangement policies and reviewed recommended changes. These policies were previously located within the miscellaneous section of the Policy Manual and have been moved to the newly formed Operations category.

Along with the General Pension Consultant, the Legal Office, and the Enterprise Office of Compliance, the Fiscal Services Division staff also participated in the review of these policies because they share implementation responsibility.

Andrew Junkin, Wilshire Associates, was available to respond to questions from the Subcommittee.

On **MOTION** by Ms. Berte, **SECONDED** and **CARRIED** to recommend to the Investment Committee approval of the revised Statements of Investment Policy for:

- a. Custody Management
- b. Directed Brokerage Arrangement

SPECIAL POLICY SUBCOMMITTEE MEETING

The Chair directed that a special Policy Subcommittee meeting be scheduled following the Investment Committee meeting on Tuesday, November 13, 2007. The item to be considered will be the adoption of Policy on Inflation-Linked Asset Class and its Components: Commodities, Inflation-Linked Bonds, Infrastructure, and Forestland.

(Subsequently, this item was postponed to the regular December Policy Subcommittee meeting.)

AGENDA ITEM 8 – ADMINISTRATIVE, Proposed December 2007 Agenda

The Subcommittee accepted the proposed December 14, 2007 agenda.

AGENDA ITEM 9 – PUBLIC COMMENT

There were no public comments.

The meeting was adjourned at 11:00 a.m.

The next regular meeting of the Subcommittee is scheduled for December 14, 2007 at a time to be determined in Sacramento, California.